

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER - NEW ORLEANS
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED MAY 16, 2007

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Seven copies of this public document were produced at an approximate cost of \$15.33. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.state.la.us. When contacting the office, you may refer to Agency ID No. 3418 or Report ID No. 06101702 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225-339-3800.



STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

April 24, 2007

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER - NEW ORLEANS
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
New Orleans, Louisiana

As part of our audit of the Louisiana State University System's financial statements for the year ended June 30, 2006, we considered the Louisiana State University Health Sciences Center - New Orleans' internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested the center's compliance with laws and regulations that could have a direct and material effect on the System's financial statements as required by *Government Auditing Standards*. In addition, we considered the Louisiana State University Health Sciences Center - New Orleans' internal control over compliance with requirements that could have a direct and material effect on a major federal program, as defined in the Single Audit of the State of Louisiana, and we tested the center's compliance with laws and regulations that could have a direct and material effect on the major federal programs as required by U.S. Office of Management and Budget Circular A-133.

The financial information provided to the Louisiana State University System by the Louisiana State University Health Sciences Center - New Orleans is not audited or reviewed by us, and, accordingly, we do not express an opinion on that financial information. The center's accounts are an integral part of the Louisiana State University System's financial statements, upon which the Louisiana Legislative Auditor express opinions.

In our prior management letter on the Louisiana State University Health Sciences Center - New Orleans for the year ended June 30, 2005, we reported three findings relating to donation of public funds, unlocated movable property, and HIV care formula grants program expenses not reconciled. The findings relating to donation of public funds and HIV care formula grants program expenses have been resolved by management. The finding relating to unlocated movable property was not resolved and is addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2006.

Unlocated Movable Property

For the second consecutive year, the Louisiana State University Health Sciences Center - New Orleans (LSUHSC-NO) did not have adequate internal control over movable property. Good internal control and the Louisiana Administrative Code prescribe that efforts should be made to locate all movable property for which there are no explanations available for their disappearance. Assets should be adequately monitored to safeguard against loss or theft, and periodic counts of property inventory, as well as the search for missing items, should be thorough.

As required by state movable property regulations, LSUHSC-NO conducted physical inventories and reported unlocated movable property items totaling \$4,849,657 for the four-year period from fiscal year 2003 to fiscal year 2006. Of that amount, items totaling \$485,876 were removed from the property records because they had not been located for three consecutive years. Of the unlocated property reported on the physical inventory certification, the amount of unlocated computers and computer-related equipment totaled \$1,579,745. This unlocated property includes 682 computers of which 238 are listed as laptops. The certification of property inventory disclosed \$99,616,065 in total movable property administered by the LSUHSC-NO. The annual certification of property inventory was submitted to the Louisiana Property Assistance Agency (LPAA) on December 15, 2006.

In the period immediately following Hurricane Katrina, LSUHSC-NO personnel were displaced and access to facilities was severely limited because of environmental concerns, lack of utilities, safety issues, and damage. Some buildings are still closed. The LPAA granted LSUHSC-NO an exemption from the November 2005 annual property certification requirement. However, failure to thoroughly secure, locate, and account for movable property increases the risk of loss arising from unauthorized use of property and could subject LSUHSC-NO to noncompliance with state laws and regulations. Also, the risk exists that sensitive information could be improperly retrieved from the missing computers and/or computer-related equipment, which could compromise LSUHSC-NO's data integrity.

Management of LSUHSC-NO should strengthen its internal controls over movable property, including the procedures for securing movable property assets and conducting its physical inventory, and devote additional efforts to locating movable property reported as unlocated in previous years. Management concurred in part with the finding and recommendation and provided a corrective action plan (see Appendix A, pages 1-2).

Inadequate Internal Controls Over Social Services Block Grant

	Questioned Costs
93.667 - Social Services Block Grant (SSBG)	<u>\$31,190</u>

LSUHSC-NO failed to maintain adequate internal controls over expenses charged to the SSBG program (CFDA 93.667). Good internal control requires that personnel submitting expenses should review program charges and supporting documentation before submission to the grantor to ensure that all expenses claimed are allowable for reimbursement. In addition, Office of Management and Budget Circular A-21 states that costs must be adequately documented.

In our tests of 24 employees charged to the SSBG program, we identified unallowable expenses charged to the grant for five employees totaling \$31,190, which are questioned costs. One employee received an overpayment of \$16,409 in salary because of paperwork errors and four employees had expenses totaling \$14,781 that were charged to the grant while also being charged to another sponsored agreement. Failure to ensure that all billed expenses are allowable subjects LSUHSC-NO to loss of funding, noncompliance with program requirements, and could result in disallowed costs.

Management should establish procedures for an adequate review of expenses and ensure that all program charges are allowable for reimbursement. Management concurred with the finding and recommendation and provided a corrective action plan (see Appendix A, pages 3-4).

Weaknesses in Internal Controls Over Payroll

LSUHSC-NO failed to maintain adequate internal controls over payroll processes, which resulted in overpayments made to employees. Good internal control requires that payroll processing should be accurate, timely, and complete to avoid errors, overpayments, and fraud. Also, Article VII, Section 14 of the Louisiana Constitution of 1974 prohibits the funds of the state or any political subdivision to be loaned, pledged, or donated to or for any person, association, or corporation, public or private. Louisiana Revised Statute 42:460 provides the university the ability to develop rules to recoup overpayments made to state employees.

In our tests of payroll transactions, we identified overpayments to four employees totaling \$19,002. One employee received excess termination pay because of incorrect accrual of leave while on Leave Without Pay (LWOP) status. A second employee was paid while on LWOP status because of late submission of a Personnel Action Form to the Payroll Department. The third employee received an excess payment of supplemental salary because of a paperwork error. The fourth employee overpayment occurred as a result of disruptions to normal system operations after Hurricane Katrina and the absence of procedures to ensure data integrity and completeness after such disruptions.

In the aftermath of Hurricane Katrina, the LSUHSC-NO discovered that a number of furloughed employees were inappropriately accumulating leave while on LWOP status. LSUHSC-NO's management subsequently formed a task force to address these problems. To date, management's task force has identified approximately 150 to 200 employees who were overpaid between approximately \$600,000 and \$700,000. These overpayments occurred because of payroll processing system weaknesses including untimely

submission of personnel change documents, untimely updating of personnel data, or inaccurate computation of payroll pay, leave accrual, and/or termination pay.

Management should continue its efforts to identify amounts overpaid, determine the causes of the overpayments, and implement the controls necessary to prevent any future occurrences. Management should also ensure that adequate controls are in place to conduct post-occurrence verification procedures to ensure accuracy and integrity of the data in the Human Resources Management system after any major changes in the normal operations of the systems. In addition, the center should continue seeking reimbursement from the employees for amounts overpaid. Management concurred with the finding and recommendation and provided a corrective action plan (see Appendix A, pages 5-6).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the center. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the center should be considered in reaching decisions on courses of action. Findings relating to the center's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of the center and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

DSG:ES:PEP:ss

[LSUHSCNO06]

Management's Corrective Action
Plans and Responses to the
Findings and Recommendations



Health Sciences Center

NEW ORLEANS

Administration and Finance
Office of the Vice Chancellor

School of Medicine
School of Dentistry
School of Nursing
School of Allied Health Professions
School of Graduate Studies
School of Public Health

February 14, 2007

Re: Response to Audit Finding: Unlocated Movable Property

Steve J. Theriot, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot,

I concur in part with the finding as reported.

LSUHSC-NO did report unlocated movable property of \$ 4,849,657 to the Louisiana Property Assistance Agency (LPAA) for the four-year period from fiscal year 2003 to fiscal year 2006. However, even though the university filed its report with LPAA, the university has continued to conduct a search for these unlocated items of movable equipment.

The fiscal year 2006 physical inventory was started six months later than normal as a direct result of Hurricane Katrina and the resulting closure of LSUHSC-NO's facilities. The fiscal year 2006 physical inventory has been complicated by the number of temporary locations that LSUHSC-NO was required to establish in order to meet the mission of the university during the aftermath of Hurricane Katrina. LSUHSC-NO has been steadily identifying these temporary locations and once identified, physical inventories are being conducted at these locations. The fiscal year 2006 physical inventory has also been complicated by buildings that are closed with no access allowed and buildings with limited access. Unlocated movable equipment with an original acquisition cost of \$506,842 is thought to be located in buildings that are currently closed with no access allowed. LSUHSC-NO is working diligently to bring all facilities within our control back to full access. We are also working to obtain permission from other agencies for access to non-LSUHSC-NO buildings where access is limited or not allowed.

As a result of these challenges, LSUHSC-NO approached LPAA and was provided with the minimum level at which the fiscal year 2006 inventory would be certified. Once this level was reached, LSUHSC-NO filed its inventory report with LPAA in order to receive inventory certification. LPAA has certified LSUHSC-NO's fiscal year 2006 Property Inventory in accordance with their standards and guidelines.

LSUHSC-NO has started its next inventory cycle (fiscal year 2007) and is placing heavy emphasis on items that were reported unlocated in fiscal years 2004 through fiscal years 2006 and is providing the Legislative Audit staff with periodic updates of the continuing progress of this inventory. The latest report was sent to the Legislative Audit staff on February 8, 2007. This report indicated that \$487,272 of previously reported unlocated movable equipment has been located in the fiscal year 2007 physical inventory.

Corrective action plan:

As part of the current year physical inventory, LSUHSC-NO will issue updated unlocated movable equipment reports to all Deans and Vice Chancellors of LSUHSC-NO. These reports will include all unlocated movable property from fiscal year 2004 through fiscal year 2006. The Deans and Vice Chancellors will instruct Department Heads with unlocated movable equipment to conduct a thorough search for unlocated movable property and to provide explanations for all items that cannot be located. LSUHSC-NO will also gain access to all closed facilities and conduct physical inventories of movable equipment in these facilities. Lastly, LSUHSC-NO will distribute the policy for reporting the relocation of movable equipment to all Deans, Vice Chancellor, Department Heads, Business Managers and Property Custodians.

Anticipated Completion Date:

The university anticipates the corrective action plan to be completed no later than November 30, 2007.

Person responsible for corrective action:

Patrick Landry, Executive Director of Financial Services
Phone: 504-568-4815
Email: pland2@lsuhsc.edu

Respectfully,



Ronnie Smith
Vice Chancellor for Administration and Finance

cc: Larry Hollier, MD
Terry Ullrich
David Dotter



Health Sciences Center

NEW ORLEANS

Administration and Finance
Office of the Vice Chancellor

School of Medicine
School of Dentistry
School of Nursing
School of Allied Health Professions
School of Graduate Studies
School of Public Health

March 29, 2007

Re: Response to Audit Finding: Inadequate Internal Controls Over Social Services Block Grant

Steve J. Theriot, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot,

I concur with the finding as reported.

Corrective action plan:

There were two separate causes that resulted in questioned costs.

The first was the overpayment of an employee. This situation was also addressed in a different audit finding entitled "Weaknesses in Internal Controls Over Payroll." The corrective action plan specified in the response to the "Weaknesses in Internal Controls Over Payroll" finding will also be the corrective action plan for this finding. The only additional action step is that any overpayment that was charged to the Social Services Block Grant that is identified by the task force formed to address payroll overpayment issues will need to be refunded to the Department of Social Services.

The second cause of the questioned costs relates to costs charged to the Social Services Block Grant that were funded by other sponsored agreements. All of the costs that were identified by the audit in this category related to Resident (House Officer) salaries. The correction action plan for this situation is follows:

1. Accounting Services will provide the Associate and Assistants Deans for Fiscal Affairs in each school with a report of the details of all costs charged to the Social Services Block Grant.
2. The Associate and Assistant Deans for Fiscal Affairs in each school will coordinate the reconciliation of all costs charged to the Social Services Block Grant for their applicable school. This reconciliation will include a review of all costs charged to the Social Services Block Grant to ensure that the costs have not been funded by another sponsored agreement.

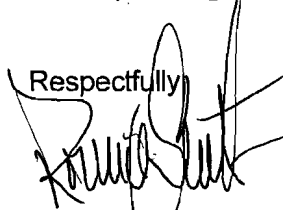
3. The Associate and Assistant Deans for Fiscal Affairs in each school will review and approve the reconciliations. Once complete, the Associate and Assistant Deans for Fiscal Affairs in each school will forward the approved reconciliations to Accounting Services.
4. Accounting Services will work Compliance Programs to test the approved reconciliations on a sample basis. Special emphasis will placed on residents salaries.
5. The Department of Social Services will be notified of any adjustments needs as a result of the reconciliation process and the related costs will be refunded.

Anticipated Completion Date:

The university anticipates the corrective action plan to be completed no later than August 31, 2007.

Person responsible for corrective action:

Patrick Landry, Executive Director of Financial Services
Phone: 504-568-4815
Email: pland2@lsuhsc.edu

Respectfully


Ronnie Smith
Vice Chancellor for Administration and Finance

cc: Larry Hollier, MD
Terry Ullrich
David Dotter



Health Sciences Center

NEW ORLEANS

Administration and Finance
Office of the Vice Chancellor

School of Medicine
School of Dentistry
School of Nursing
School of Allied Health Professions
School of Graduate Studies
School of Public Health

March 29, 2007

Steve J. Theriot, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Re: Response to Audit Finding: Weaknesses In Internal Controls Over Payroll

Dear Mr. Theriot,

I concur with the finding as reported.

Corrective action plan:

When the condition that led to the finding was first brought to my attention, I requested a review and analysis by the Office of Compliance Programs Audit Section. The review identified several issues that resulted in overpayments. In order to ensure that each issue was appropriately and consistently addressed in accordance with existing laws and regulations and to develop processes to prevent future occurrences, a task group was formed. This group, which consists of representatives from Legal, Human Resources Management (including Payroll), Accounting Services, Internal Audit, and Compliance Programs, meets on a regular basis. The task force is responsible for:

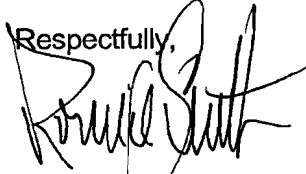
- documenting all payroll overpayments that can be determined
- ensuring proper steps are taken to recoup the overpayments
- identifying and implementing controls necessary to prevent future overpayments

Although we are still in the process of verifying the overpayments, as of February 28, 2007, LSUHSC-NO has recouped approximately one-third of the amounts stated in the finding.

It is anticipated that the due diligence efforts to recoup the overpayments will be substantially complete by fiscal year end. However, some actual collections may continue beyond that date. We expect that the development and implementation of new controls will be substantially complete by the end of calendar year 2007, although some controls will be implemented considerably sooner.

Person responsible for corrective action:

Roy G. Clay III, Compliance Officer
Phone: 504-568-5135
Email: rclay1@lsuhsc.edu

Respectfully,


Ronnie Smith
Vice Chancellor for Administration and Finance

cc: Larry Hollier, MD
Terry Ullrich
David Dotter